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E.O. 12958: N/A  
TAGS: PREL PGOV US UP  
SUBJECT: OVERCOMING UKRAINE'S VAT TAXES ON EXERCISES SEA  
BREEZE AND RAPID TRIDENT

¶1. (U) This is an action cable. Post is requested to deliver points in paragraph 5 to appropriate Ukrainian interlocutors.

¶2. (U) Background. Despite repeated assurances to us over the years that Ukrainian law will be changed to provide for exemption from VAT, excise, use, and other taxes for official purchases made by U.S. forces for exercises "in support of" the Partnership for Peace (PfP), Ukraine still has not done so. We are now facing another year of exercises where we are being told we must pay VAT and other taxes. Exercise Sea Breeze is scheduled to take place from July 9-28 and Exercise Rapid Trident is scheduled for September 4-19.

¶3. (U) Paying the taxes is against Department of Defense (DoD) policy. In the past, waivers from established DoD policy on foreign tax relief have been granted. We have told the Ukrainians many times that we want the exemption, but allowed the exercise to continue anyway even though they did not provide the exemption. Additionally, the Ukrainians have not reimbursed us for taxes that we have paid in the past. This year, we are funding -- at significant cost -- the Ukrainians, participation in Sea Breeze and Rapid Trident due to shortfalls in the Ministry of Defense (MOD) budget.

¶4. (U) Although we agree on the importance of Ukrainian participation in these exercises, we also believe the longstanding VAT problem needs to be resolved, and we must continue to press the Ukrainians to change their tax laws. While recognizing that it may not be possible to achieve that goal in advance of this year's Sea Breeze and Rapid Trident exercises, we need to send a strong message that Washington believes it is time to break this pattern and the Ukrainians must exercise whatever flexibility they can. Post should explore the possibility of obtaining a presidential waiver from paying the taxes this year.

¶5. (U) Action for Post. Please draw from the following points in raising the issue with appropriate Government of Ukraine officials.

Begin talking points.

-- The United States recognizes the value of the annual Sea Breeze and Rapid Trident exercises as important activities supporting Ukraine's Euro-Atlantic integration and NATO-interoperability efforts.

-- In view of this, we are also providing additional funding to support Ukraine's participation in these exercises this year.

-- However, we remain concerned that despite years of repeated assurances that the Ukrainian law will be changed to provide exemption from VAT and other taxes for official purchases made in support of these exercises, your government

still has not done so and we are again being asked to pay these taxes for this year,s exercises.

-- It is against U.S. Department of Defense policy to pay these taxes. In the past, we have obtained waivers to allow the exercises to continue, and Ukraine is the only country where we are paying them.

-- The United States believes it is time to break this pattern and obtain final resolution of the VAT issue. While we recognize it may be difficult for your government to change the necessary law in advance of this year,s Sea Breeze and Rapid Trident exercises in July and September, we ask you to exercise whatever flexibility you can.

-- Specifically, we ask you to pursue a presidential waiver from these taxes this year, as a measure of good faith and as a first step toward permanently resolving the issue.

-- We continue to place great importance on our strong defense relationship and we hope that you can work with us to obtain a solution to this very important matter.

End talking points.

CLINTON